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Buying Feeder Pigs? : An Economic and Management Guide

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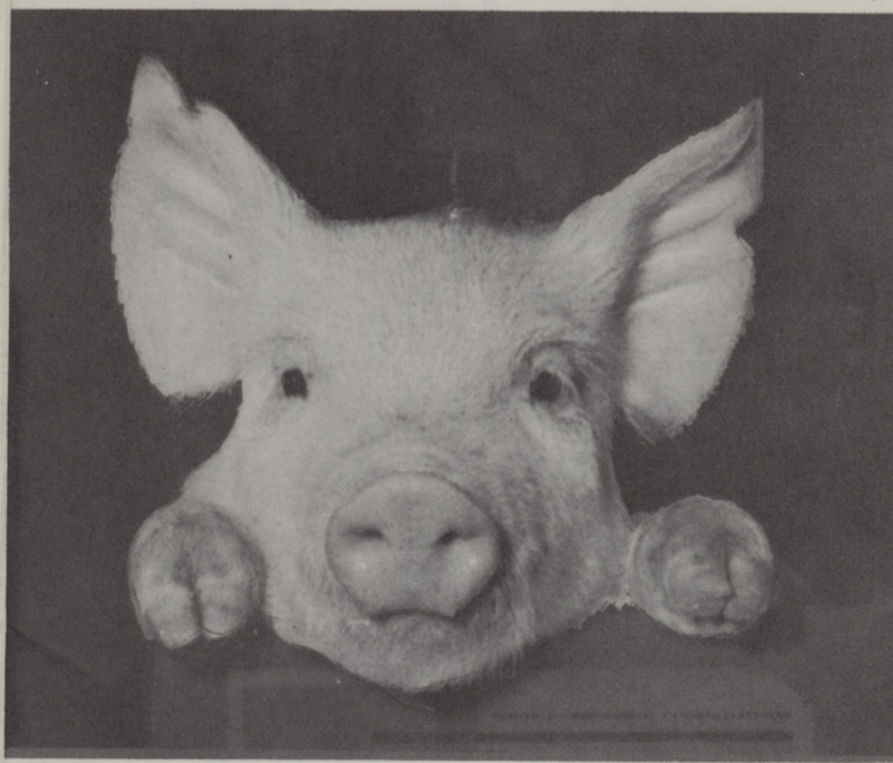

SOUTH DAKOTA STATE UNIVERSITY
COOPERATIVE EXTENSION SERVICE
U. S. DEPARTMENT OF AGRICULTURE

Buying Feeder Pigs?

An Economic and Management Guide

by **Arthur W. Anderson,** extension economist, and **L. J. Kortan,** extension livestock specialist

PRICE DETERMINATION

Since there is a limit to what can be paid for a feeder pig and still make a profit on the feeding program, the producer should carefully consider expected costs and returns before buying.

Feeder pig pricing systems vary considerably. Supply-demand sets the price at feeder pig sales and at auction markets. Formulas based on current market hog prices are usually used when buying from pig dealers or by private treaty from feeder pig producers.

Regardless of how feeder pigs are purchased, prices tend to follow both cyclical and seasonal trends of market hog prices. However, feeder prices usually do not fluctuate as widely as market prices do. Because of this the price received for the finished hog is more important than the price paid for the feeder pig.

When buying feeder pigs, consider the outlook for hog prices over the next 3-4 months. Also take into account the time required to finish feeders to market weight.

Table 1 indicates the amount of supplement and corn required to finish a 40-pound and 80-pound feeder pig to 225 pounds. Also indicated is the approximate daily rate of gain that can be expected.

Table 1. Corn and Supplement Requirements and Average Daily Gain for Selected Efficiency Levels

Pounds of Feed Per 100 lbs. Gain	Corn (bu.)	Supplement (lbs.)	Gain/Day (lbs.)
	40 to 225 pounds		
300	8.42	72	1.5
350	9.82	84	1.5
400	11.22	96	1.5
450	12.60	108	1.5
	80 to 225 pounds		
300	6.93	51	1.6
350	8.07	60	1.6
400	9.24	68	1.6
450	10.37	77	1.6

What Are Feeder Pigs Worth?

Answering the following questions can help determine how much to pay for feeder pigs.

1. What is the estimated price per hundredweight for market hogs when the feeder pigs are to be sold?

A fairly accurate estimate of this price can be made by studying the cyclical and seasonal trends. From late August until November or December prices usually drop. In the winter they begin to rise, but fall again in the spring. Prices differ from year to year, but in general hogs marketed in late summer or early fall bring more than those marketed in November or December.

Select the size of feeder to buy according to the phase of the hog cycle. Will 30 days advantage in buying an 80-pound compared to a 40-pound feeder pig be worth the chance to gain a higher seasonal market price? This is an important factor to consider if planning to purchase feeder pigs during July and August.

2. What will the feed cost?

The cost of feed is of first importance because the cost of grain and protein-mineral supplement makes up approximately 75% of the total cost involved in growing out slaughter hogs from weaning weight. Since corn or its equivalent is the major feed ingredient, base the cost of feed primarily upon the price of corn.

3. What amount of feed is needed to finish feeder pigs to market weight?

Feeding efficiency will vary with the genetic make-up of the pig and the feeding ability of the producer. Prices given in tables 2 and 3 were based on a feed efficiency rate of 400 pounds of feed to produce 100 pounds of pork. This is considered average.

4. What other costs should be considered in determining total production costs of a feeder pig?

Items such as labor, equipment, electricity, veterinary fees, death loss and interest on invested capital make up approximately 25% of the total cost of producing pork, with corn figured at $1.10 a bushel and supplement at $4.50 per 100 pounds.

Since these other costs do not vary in relation to the cost of feed, a constant figure of $6.15 for the 40-pound pig and $4.90 for the 80-pound pig were used in the tables.

How These Tables Work

Suppose you are considering buying some 40-pound feeder pigs in early April. It requires about 120 days to finish these pigs to 225 pounds. Price of corn is assumed to be $1.10 per bushel.

First estimate the approximate market price in 120 days (about 4 months). Four months later (in early August) hog prices are seasonally high. For purpose of illustration, estimate a price of $17 per hundredweight.

Go to table 2 and follow the $1.10 corn price column down to the point where it intersects with the $16 selling price ($11.39). Since the table gives expected prices in multiples of $2 only, the difference between $11.39 and $15.89 on the $18 dollar line must be divided by 2. This gives a break-even price of $13.64 that can be paid for a 40-pound feeder pig and get back all costs, assuming feed makes up approximately 75% of the total hog feeding cost.

Table 3 shows what can be paid for an 80-pound feeder pig and get back all costs when sold at 225 pounds. Both tables include estimated labor costs.

Other Adjustments

You probably won't be able to buy feeder pigs at exactly 40 pounds.

To make this adjustment, add or subtract the value, at the expected market price, of the difference of the pork you buy as a feeder.

Say that you can buy 35-pound feeders. This means it will require more feed and other expenses before marketing. Using the original example of $13.64 as the break-even price and $17 a hundredweight as the selling price, here's how to figure what the 35-pound feeder is worth:

Basic price (40-pound feeder)	$13.64
Less 5 pounds at 17c a pound	—.85
Value of 35-pound feeder	$12.79

Also your feeding efficiency may be higher or lower than the 400 pounds of feed to produce 100 pounds of pork as used in the table.

If you have feed efficiency records, the amount that you can pay for a feeder pig can be adjusted accordingly.

Suppose your hog enterprise records show it takes 380 pounds of feed to produce 100 pounds of pork. Add 2½% to the break-even price in the table for each 10 pounds of feed required less than 400. In this case, add 5%. Again using our original example as a base, use the following method:

Basic price	$13.64
Basic price x 5% ($13.64 x .05)	+.68
Amount that can be paid	$14.32

Suppose your hog enterprise records show that it takes more than 400 pounds of feed to produce 100 pounds of pork. In that case deduct the additional cost from the break-even price by 2½% for each 10 pounds of feed increase over 400 pounds.

GOOD MANAGEMENT VITAL

Good management, as well as good animals, is necessary to make a profit finishing pigs. Even

Table 2. Break-even Table for 40-pound Feeder Pig to Be Marketed at 225 Pounds

Expected Selling Price per Hundred	Value of Bushel of Corn								
	$ .70	$ .80	$ .90	$1.00	$1.10	$1.20	$1.30	$1.40	$1.50
$10	$ 2.37	1.26	.12	.....	.....	.....	.....	.....	.....
12	6.87	5.76	4.62	3.51	2.39	1.24	.13	.....	.....
14	11.37	10.26	9.12	8.01	6.89	5.74	4.63	3.51	2.39
16	15.87	14.76	13.62	12.51	11.39	10.24	9.13	8.01	6.89
18	20.37	19.26	18.12	17.01	15.89	14.74	13.63	12.51	11.39
20	24.87	23.76	22.62	21.51	20.39	19.24	18.13	17.01	15.89
22	29.37	28.26	27.12	26.01	24.89	23.74	22.63	21.51	20.39
24	33.87	32.76	31.62	30.51	29.39	28.24	27.13	26.01	24.89

Table 3. Break-even Table for 80-pound Feeder Pig to Be Marketed at 225 Pounds

Expected Selling Price per Hundred	Value of Bushel of Corn								
	$ .70	$ .80	$ .90	$1.00	$1.10	$1.20	$1.30	$1.40	$1.50
$10	6.61	5.69	4.76	3.84	2.93	1.98	1.06	.14	.....
12	11.11	10.19	9.26	8.34	7.43	6.48	5.56	4.64	3.72
14	15.61	14.69	13.76	12.84	11.93	10.98	10.06	9.14	8.22
16	20.11	19.19	18.26	17.34	16.43	15.48	14.56	13.64	12.72
18	24.61	23.69	22.76	21.84	20.93	19.98	19.06	18.14	17.22
20	29.11	28.19	27.26	26.34	25.43	24.48	23.56	22.64	21.72
22	33.61	32.69	31.76	30.84	29.93	28.98	28.06	27.14	26.22
24	38.11	37.19	36.26	35.34	34.43	33.48	32.56	.....	.....

the best bred animals must be well fed and cared for to get maximum results.

Stress factors are numerous as feeder pigs are moved from one farm to another. Such things as feed, handling, climate, disease level, and housing can vary greatly. Too many feeder pig purchasers know the problems of fighting scours, gut edema, and pneumonia.

Prices and results referred to in the tables assume average genetic ability and good management practices. Following is a list of practices considered desirable to get good results from a group of feeder pigs.

What to look for:

- Sleek-haired, thrifty pigs
- Weight for age—at least 35 pounds at 8 weeks and 40 pounds at 10 weeks. Fifty pound feeder pig is best weight. They will stand most stress.
- Correct type—stretch, ham, soundness
- Castrated boar pigs, smoothly healed
- Pigs vaccinated for cholera and erysipelas
- Organized, health-inpected feeder pig sales, bona-fide feeder pig producers, or reputable licensed dealers.

What to avoid:

- Unthrifty pigs—rough hair coat, wrinkled skin
- Boar pigs or castrated pigs not properly healed
- Exceptionally light pigs—less than 30 pounds
- Crippled or deformed pigs
- Pigs with ruptures or enlarged joints
- Pigs undersized for age, scouring or filled to excess when weighed
- Pigs that are mangy, have lice or pig pox
- "Bargains" from a peddler who is not licensed as a feeder pig dealer

Care of Newly Arrived Feeder Pigs

Isolate new pigs to prevent spread of disease and to reduce fighting.

Provide warm, dry, draft-free quarters with plenty of bedding and supplemental heat if necessary.

Allow approximately 6 square feet per pig.

Provide at least one automatic waterer for every 20 to 30 pigs and one linear foot of feeder space for every 3 or 4 pigs, or one feeder hole per 4 to 6 pigs. Keep the water clean and provide fresh feed. This helps to prevent fighting and reduces some of the stress conditions involved in moving.

Start pigs on a bulky-type ration containing a low level of protein. Use a complete ration of 12% protein made up of corn and oats.

Use a high level of antibiotics the first week. Levels of more than 100 grams per ton of complete ration have proved very satisfactory.

Since some young feeder pigs may not be accustomed to eating dry feeds, add sugar or molasses to sweeten the feed. It is important that the pigs consume sufficient feed.

Have the feeding quarters cleaned and disinfected prior to the arrival of the pigs.

Treat the pigs for lice and mange by using lindane or malathion solutions.

After the pigs are isolated, avoid traffic between them and other swine. Disinfect shoes before entering the feeding area.

Avoid other stresses (worming, etc.) for at least 2 weeks. Postpone these treatments during the early starting period and then space them to give the pigs time to recover completely from one treatment before starting another.

If the pigs are not uniform in size or type, separate them into uniform groups.

At the first sign of trouble, call a veterinarian.

For other points in jig management, see FS 156, "Managing the Pig Herd."

Suggested Ration for First Week

Some producers have found that the following low-level protein ration, self-fed for the first week, has proved satisfactory.

Ground oats	500 parts
Ground corn	500 parts
32%-40% protein supplement	100 parts
Alfalfa meal	100 parts
Trace-mineralized salt	10 parts
Antibiotics	100 grams or more/ton

After the pigs are well adjusted, change the ration to provide more protein and energy. For a complete home-mixed ration, see FS 79, "Figuring Feeds for Swine."

USING THE HOG FUTURES MARKET

Futures trading in live-hog contracts started for the first time on February 28, 1966, at the Chicago Mercantile Exchange. Very briefly, futures trading in live hogs can provide a degree of hedging against price risk to purchasers of feeder pigs. Futures price quotations can also serve as a pricing guide.

A futures market is mainly an organized system of buying and selling contracts for deferred delivery. The one who owns or holds the product and sells a futures contract in order to reduce price risk is known as a "hedger." He is willing to give up the possibility of a higher price at market time in order to assure himself of a known "contract" price. Buyers of futures contracts may be processors who intend to take delivery, or they may be speculators who are willing to match their capital and judgment of future market prices against those of the hedger.

Here is how a purchaser of feeder pigs might use the hog futures market for hedging. Suppose

he purchases feeder pigs in mid or late June. Allowing a 4-month finishing period, his hogs would be ready for market about November 1. At the time of purchasing his feeder pigs, he could sell a futures contract (20,000 pounds or 100 head of 200-pound hogs per contract) on the November futures market.

Let's assume that November live hog futures are selling at $19 a cwt. This means he would receive $3,800 for 20,000 pounds of live hogs delivered in Chicago in November.

A hog producer using futures contracts to hedge, however, rarely intends to deliver except in extremely unusual conditions. Instead, he buys back his contract.

Suppose that by November the hog market goes up to $21. He would have to buy back his futures contract for $21 per cwt., not $19. So the contract would cost him $4,200. This appears to be a $400 loss compared to the $3,800 he sold it for. But he can sell his hogs on the higher actual cash market. At a selling price of $21 per cwt., he would offset apparent $400 loss, but would not recover the commission charges, interest and other costs of futures transactions.

On the other hand, suppose the hog market goes down to $17 in November. Then he could buy back the contract for $3,400, which would be $400 less than he paid for it. He would sell his hogs on the cash market and receive $3,400. But he would also have the $400 profit from his futures transaction, less costs.

Commission charges, clearance fees, and interest on margin deposit amount to about 25 to 30 cents per cwt.

Futures market quotations can also be used as a guide for judging prices of feeder pigs. Suppose 40-pound feeder pigs are selling for $20 per head. If production costs between 40 and 200 pounds are estimated at $13 per hundred, purchase price of the feeders plus production costs would amount to $40.80 per hog. A $20.40 market price per cwt. would be needed just to break even.

If live-hog futures contracts 4 months into the future are selling for $19 per cwt., $20 a head may be too much to pay for feeder pigs. In this manner, the hog futures market may be a guide to buyers of feeder pigs.

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